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Americanizing Asia?

Foreign Affairs; New York; May/Jun 1998; Donald K Emmerson;

Volume: 77
Issue: 3
Start Page: 46-56
ISSN: 00157120
Subject Terms: Capitalism
Economic conditions
Economic policy
Economic theory
Government
Economic conditions
Capitalism
Economic policy
Classification Codes: **9190**: *US*
9179: *Asia & the Pacific*
1130: *Economic theory*
Geographic Names: US
Asia
Asia
United States
US

Abstract:
Many observers of the Asian financial crisis have been tempted to declare the victory of American-style capitalism. Just as the fall of the Berlin wall in 1989 vindicated America's political model - liberal democracy - so the collapse of Asia' s markets in 1997 proved the wisdom of America's economic model - free-market capitalism. But it is presumptuous to think that the crisis foretells Asian acceptance of American ways. The facts are far more complex. The Asian economies best able to withstand the present crisis may be those with more political freedom, but the real key may be competent government. East Asia is changing, but it is not Americanizing.

Full Text:

FOLLOW THE LEADER?

WHATEVER ITS duration and outcome, the Asian financial crisis will be remembered for destroying the conventional wisdom that East Asia's economies would prosper indefinitely. Still in question are the political lessons that Asians will draw from the crisis. How much, for example, will political freedom be valued as a necessary corollary to sound economic performance? Or will those who argue that sound economic management is the political key prove persuasive? And will a "Confucian" version of the discredited "Asian values" thesis find adherents?

The crisis began on July 2 of last year when the Thai government ceased wasting foreign reserves on a defense of the baht and allowed it to fluctuate versus the dollar. The resulting "managed float" immediately proved unmanageable. The baht's fall triggered a regional currency and equity cascade. As it swept from Bangkok through Kuala Lumpur, Manila, and Jakarta to Seoul and Hong Kong, upbeat exponents of"Asia rising," "the East Asian model," and an imminent "Pacific century" barely had time to edit these phrases from their screens and diskettes.

A few early warnings had been sounded. The World Bank had worried about trends in Thailand before July. And some skeptics, like the MIT economist Paul Krugman, had doubted that East Asia's breakneck economic pace could be sustained. Nevertheless, most analysts were sanguine and slow to reconsider. But in hindsight it is clear that for much of Asia 1997 was an annus horribilis. The crisis appeared to have abated in some countries earlier this year, notably Thailand and South Korea, but it worsened in Indonesia, Southeast Asia's largest economy. These days most observers expect the crisis, or its aftershocks at any rate, to endure into 1999 if not beyond.

In 1997 five East Asian stock markets-those of Indonesia, Malaysia, the Philippines, South Korea, and Thailand-lost more than three-fifths of their value in dollars. Economic, environmental, and health problems due to Indonesia's prolonged drought and forest fires compounded these shocks in maritime Southeast Asia. Meanwhile, Japan's economy remained in doldrums that have lasted seven years, longer than any other lapse in that country's growth since World War II. As for China, financially hemorrhaging state enterprises continue to threaten stability across the Middle Kingdom.

The ramifications of East Asia's crisis go beyond the region. And they amount to more than the question the media keep asking: "Who else will catch the Asian flu?" In the United States, the rupturing of optimism about East Asia seems to tip the balance between the two most widely discussed positions about the dynamics of power in the post-Cold War world. The two sides of this debate can be termed divergence and convergence. Divergence holds that foreigners are challenging American dominance by asserting non-American models in politics, economics, and culture. On the other side, convergence suggests that foreigners are paying tribute to the supremacy of the United States by imitating its superior ways. Events in East Asia in 1997 appeared to weaken the case for divergence and, at least by default, strengthen the argument for convergence.

The Asian financial crisis was unkind to at least three versions of divergence. First, it ravaged the credibility of a supposedly distinctive East Asian, or Japanese, model of economic growth based on cooperation between conglomerates-Japan's keiretsu, South Korea's chaebol, Indonesia's konglomera-and astute government officials. Collapsing Asian markets revealed the crony capitalism beneath the surface of East Asia's "developmental state." Second, the Asian crisis reduced the chances of a trans-Pacific "clash of civilizations." Falling growth rates and mounting losses in dollars jeopardized the resources and self-confidence that leaders of the Sinic world would need were they to challenge the West. Third, the crisis damaged the Asian leg in the tripod model favored by those who expected power after the Cold War to coalesce around three regional blocs, each with its respective hinterland and hub: East Asia fanning out from Tokyo, the Americas centered on Washington, and Europe led from Brussels. "Head to head to head" competition became less plausible as the Asian head became less formidable.

It would seem logical that the Asian crisis should have buoyed the proponents of convergence. American observers especially were prone to believe that just as the fall of the Berlin Wall in 1989 had vindicated the American political model-liberal democracy-so the fall of Asia's markets in 1997 proved the wisdom of the American economic model-free-market capitalism. Cultural pride tinged with schadenfreude appeared as well in the charge that East Asia's failure to maintain rapid economic growth had proved the impotence of so-called Asian values. And with Asian values out of the way, what was left but the goodness and power of the capitalist and democratic virtues undergirding American success?

Yet it is presumptuous to think that the crisis foretells Asian acceptance of American ways-that Americans can now truthfully sing, "We are the world." First, East Asia's diversity-historical, cultural, political, economic-ensured that the crisis would affect each country differently. And that has meant different explanations as to why the trauma occurred and what still needs to be done. For Malaysian Prime Minister Mahathir Mohamad, to cite a vocal example, anything-goes American capitalism was not the solution. It was the problem. Blaming the crisis on arbitrageurs and hedge fund managers such as American financier George Soros, Mahathir proposed global controls on money trading that appalled Washington.

Second, there was a difference between obligation and willingness. Even if policymakers could agree on the empirical validity of Margaret Thatcher's famous dictum about free markets-"There is no alternative," or "Tina"-that did not imply a consensus that there should be no alternative. Tina might be unavoidable, but that did not make her good. And this difference between is and ought means that at least some Asians will continue to seek what Tina forbade: alternatives to unregulated markets and the vulnerability and instability that comes with them. Third, the American model is hardly monolithic, and the issue of how to resolve the Asian crisis has become contentious among Americans themselves. On the same page of the Wall Street Journal, one expert called for higher taxes and lower spending while another advised the opposite. A third recommended doing nothing at all. Especially controversial have been the International Monetary Fund's efforts to help resolve the crisis. Deputy Treasury Secretary Laurence Summers, for instance, defends the IMF and its prescriptions as crucial to Asia's recovery. But Harvard economist Jeffrey Sachs claims it has made matters worse, while former Secretary of State George Shultz recommends its aboliton. Who can say which of these men stands for the real American model?

Fourth, America's use of the IMF to respond to the crisis created inconsistencies between theory and practice-between free-market ideology and the available remedies. The IMF'S members are not corporations but states. But the crisis itself has been driven not by public debts but private ones, incurred by Asian banks and firms. The governmentto-government nature of the IMF'S interventions bolstered the economic significance of the state. And the opacity of the IMF's own confidential meetings and agreements did not jibe with its case for greater transparency in Asian accounting practices.

Fifth, Washington's decision not to contribute directly to the August 1997 IMF package for Thailand rankled Southeast Asians. Few were persuaded by Washington's defense that the United States had been indirectly helpful by virtue of its long-standing support for the IMF. Knowledgeable Southeast Asians were concerned by what many of them saw as congressional indifference, if not hostility, toward helping the region recover. They pointed to the inability of the Clinton administration to quickly persuade Congress to authorize additional financing for the IMF. And that inability reduced their willingness to believe that IMF conditions amounted to a specifically American model whose adoption would reap American awards.

But if Asians were not converging on an American model, they were under mounting pressure to believe that freer markets and freer politics could have prevented the crisis in the first place, or at least mitigated its effects. That pressure had many sources and forms, ranging from shorted currencies and capital flight to domestic protest and foreign advice.

THREE SUCCESSES AND A FAILURE

AMERICANIZATION ASIDE, the differing courses of the crisis in different countries did appear to support the prescription of political freedom as a cure for East Asia's economic ills. Especially crucial to this judgment were three successes and a failure: Taiwanese resistance, Thai and South Korean recoveries, and Indonesian collapse.

No major East Asian economy with a convertible currency was rattled less by the crisis than Taiwan. In dollar-indexed terms, its stock exchange shrank a mere 5 percent in 1997 before gaining lo percent in 1998 through March 17. Two blips, one down, one up, left this market about where it had been. In contrast, over the same two periods, the Thai bourse plunged 76 percent before soaring 73 percent. That wild ride made Bangkok's consecutively the worst-and best-performing of the 33 exchanges tracked daily by the Wall Street Journal. On Seoul's volatile equity market, the drop and rise were nearly as steep-down 69 percent in 1997, up 58 percent in early 1998.

Taiwan, Thailand, and South Korea, all former autocracies, have made remarkable though uneven progress toward liberal democracy. Indonesia has not. Not only was the authoritarian regime in place since 66 still unreformed, but in March its 76-year-old architect, Suharto, already the longest-serving head of government besides Fidel Castro, got himself named president for another five years, despite his country's last-place finish in the race to exit the Asian crisis. None of the 33 tracked markets had done worse than Jakarta's. Sold and shunned by foreign and domestic investors, in 1997 and early 1998, respectively, that pariah bourse lost 64 percent of its dollar value, then 42 percent of what was left. These events support the economic case for political freedom and accountable rule. Particularly striking was how Thailand and South Korea handled the issue of national leadership and its replacement. In Thailand, without political freedom, the incompetent coalition government of Prime Minister Chavalit Yongchaiyudh could not have been discredited. Instead, Thais could and did blame Chavalit and his ministers for failing to prevent and then worsening the economic crisis. In November Chavalit resigned and was replaced by Chuan Leekpai. Chuan's popularity allowed him to place expert technocrats in key ministerial positions where they could implement necessary reforms. Confidence in the economy began to revive. A month later South Korea changed leaders too. Blame for the tottering economy had made incumbent President Kim Young Sam, like Chavalit, deeply unpopular. The December election of Kim Dae Jung to replace him amounted to a mandate for reform. As in Thailand, confidence in the new government and its ability to repair the economy burgeoned.

Thailand not only changed prime ministers midstream, it changed constitutions too. The new document augured political reform, at least on paper. Under one provision, no one can serve as a member of parliament and the cabinet concurrently. That change might seem minor, but politicians previously borrowed vast sums to buy votes, get elected to parliament, become part of a ruling coalition, and wrangle a cabinet post, and used the office to raise under-the-table funds to pay off political creditors and buy more votes in the next election. Some 20 billion baht, roughly $8oo million, was poured into the November 1996 election. That mixing of finance and politics helped weaken the Thai economy on the eve of its ruin the following year. By forcing ministers to give up their legislative seats in parliament, the new constitution is intended to help separate money from politics.


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Playing along or playing games: Suharto greets US. special envoy Walter Mondale, March3, 1998

But even if liberal democracy can be said to strengthen an economy's ability to cope with adversity, that is not necessarily an argument for adopting the American political model. Democratic but politically divided governments in Seoul and Bangkok were implicated in failing to prevent or contain the crisis in 1997. Partisan bickering and deadlock made reform more difficult in both places. And who can say how long President Kim's and Prime Minister Chuan's honeymoon periods will last before politics as usual sidelines the chance for a concerted national effort to restructure their economies? No wonder Kim discourages talk of South Korea having "turned the corner." Facing an opposition majority in parliament that has already rejected his choice for prime minister, he needs a sense of urgency to foster consensus.

JUST ADD DEMOCRACY?

KIM DAE JUNG blames the Asian crisis squarely on authoritarian rule. "In every country in Asia, including Korea," he has said, "the major reason for [economic] failure was lack of democracy." The data in the table do not directly test this assertion, but they do relate the economic resilience of nine East Asian countries, measured by how much their equity markets shrank in 1997-98, to the degree of political freedom enjoyed by their populations in 1996, based on widely used estimates.

Among these nine East Asian economies, political freedom is not consistently associated with economic resilience. Yet there is a clear if broken trend toward more freedom being linked with more resilience. The exceptions are South Korea, Thailand, and the Philippines, which have been economically less resilient than their levels of political freedom would lead one to expect. Also, Singapore was more than twice as resilient as Malaysia, despite having the same relatively low level of freedom. Nevertheless, the pattern is suggestive: Other things being equal, the economies best able to withstand the present crisis may prove to have been those with more political freedom.

Yet liberal democracy is not a magic bullet. The evidence in the table is compatible with other hypotheses. A culturalist, for example, would note that the five most resilient places on the listJapan, Taiwan, Hong Kong, Singapore, and South Korea-were also those most indebted to China historically or demographically, that is, by tradition or migration. So although the crisis has buried the belief that Asian values guarantee economic success, the race to recover from the shocks of iggy-98 could resurrect a Confucian version of the same faith.

Also, excluding South Korea, the northeast Asian economies fared better than those of Southeast Asia. That could reflect distance; the crisis started in Thailand. But it also could imply the effectiveness of sheer wealth as a defense against attacks on a country's markets: in 1996 each of the three northeast Asian economies that would turn out to be the most resilient-Japan, Taiwan, and Hong Kong-held more foreign exchange on reserve than any other economy on the list. Moreover, all the northeast Asian populations enjoyed higher average incomes than any of the Southeast Asians except in Singapore.

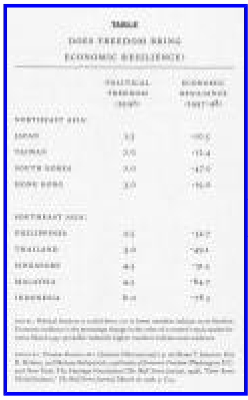

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TABLE

In any event, the economic prowess of democracy should not be overdrawn. A comparison between South Korea and Singapore, for example, does not confirm Kim's sweeping belief in lack of democracy as the major reason for the economic setback in every country in Asia. In 1997-98 the value of South Korean stocks was set back more in dollar terms than Singaporean equities, despite the greater lack of political freedom in Singapore.

In his own allocation of blame for the Asian crisis, Singapore's Senior Minister Lee Kuan Yew has suggested that what distinguishes the unscathed from the damaged is not political democracy but good governance of the economy. Singaporeans, Lee said, are not champions of human rights or democracy, "but we are very fastidious in the way in which we run our business, and on financial matters we are completely aboveboard." Lee also in effect acknowledged that not all "Asian values" are constructive. "One of the weaknesses of Confucianism," he noted, is nepotism. The economies least able to resist the crisis are those where nepotism-"the bane of East Asian countries," in his words-is most entrenched.

But the views of Kim and Lee are more compatible than they first appear. Electoral democracy can undermine good governance in the absence of the rule of law. And good governance in a liberal democracy requires public servants who are insulated from the blandishments of special interests and the passions and whims of momentary majorities. Democracy as such did not damage the integrity of the Thai central bank and its ability to avoid the collapse of the baht in July 1997. But the connection between money and politics at the heart of Thai democracy did.

This judgment is in no way an argument against holding elections to ensure accountability. It is an argument for combining electoral accountability with rights and freedoms under the rule of law. One more practice, which none of these ingredients guarantees, is also necessary: good governance, in the sense of entrusting a few particularly sensitive functions to agencies whose ability to serve the public interest is improved by limited accountability to elected politicians.

In the United States, the president cannot appoint the head of the Federal Reserve. Presidents appoint its governors, but to 14year terms; governors outlast presidents. Governors also elect the chair of the system, who is responsible to them. The point is clear, and in a particular sense it is antidemocratic: overseeing a country's banking system and currency to ensure confidence is a task too important and too corruptible to entrust entirely to elected politicians and their short-term appointees.

More than anywhere else in East Asia, economic failure in Indonesia has political roots. From the inception of President Suharto's regime in 1966, Indonesian economists committed to market-based policies managed the economy well and held their own against big-spending nationalists until, periodically, economic success undermined caution and encouraged recklessness. And these times of complacence and overextension were interrupted only by shocks-the near bankrupting of the state oil company in the 1970s, falling prices for Indonesian oil exports in the 1980s, and the economic crisis of i997-98-that reinstated the technocrats' clout to resume necessary reforms. But the shocks of 1997-98 ran into obstacles, including nepotism, cronyism, and corruption, which blocked the restoration of confidence or growth. More than ever, the president and his family, including his six adult children, are part of the problem.

Nowhere is this more evident than in the composition of the new government Suharto chose in March. His vice president, B. J. Habibie, is a man who spent years as minister of research and technology channeling torrents of public money into unprofitable high-tech projects. As Indonesia's timber king, the new minister of industry and trade was implicated in the profitable restraint of trade in wood products. The new minister of social affairs is Suharto's eldest daughter, who some believe is being groomed to succeed her father. Meanwhile, her brothers have tried to safeguard their business sinecures from reform.

Suharto's ties to relatives and friends help to explain why he has vacillated in the face of IMF pressure to change the economy's opaque ways. He largely failed to implement an initial understanding with the IMF, announced a budget beyond its targets, reinstated costly infrastructure projects, and sought to skirt the strictures of a second, tougher IMF agreement. By February, in the eyes of an increasing number of urban, educated Indonesians, Suharto had become an obstacle to recovery by reform. With political freedom, he might have been rendered accountable, perhaps even replaced, as in Bangkok and Seoul. Without it, Indonesia flounders on.

FALSE STARTS?

THE ECONOMIES of East Asia are in a race to leave 1997 behind. The leaders-Japan, Taiwan, and Hong Kong-are politically much freer than Indonesia, the laggard. But things are less clear in the middle of the pack.

Nor is it clear that Indonesia will "get the message" and democratize. As so often in the archipelago's past, some Indonesians of non-Chinese descent, especially Muslims, have blamed their pain on the small but economically influential ethnic Chinese minority; in February Chineseowned shops were looted and burned. But the armed forces continue to block challenges to public order, and the middle class has too much to lose in a revolution to sponsor one. If disorder can be contained, the status quo can probably be maintained, assuming Suharto stays healthy. Even if the economy continues to deteriorate and disorder spreads, repression seems more likely than democratization, at least in the short run.

Question marks hang over other nations as well, including those where democracy has taken hold. In March, opposition politicians in Bangkok were already planning a no-confidence motion against the new government. In Manila the markets worried about the nationalist rhetoric of Joseph Estrada, who was favored to win presidential elections in May. And how long would Kim Dae Jung be able to withstand antireform pressures from business and labor groups? Nor were all authoritarians the same. In contrast to Jakarta's "friends and family" cabinet, Beijing appointed a number of ministers who had risen through the party ranks for their ability to enact reform. Even if liberal democracy does turn out to be their preference, East Asians will not necessarily choose the expensive, divided, and easily deadlocked version of it available in Washington.

In 1998 East Asia is changing-one hopes for the better-but it is not Americanizing. It is important for

Americans to think realistically, not wishfully, about the region. It is too early to reinvent the debunked East Asian miracle as a new parable about "Asia rising" toward liberal democracy.

[Author note]

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